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Advisors look to diversify after DeepSeek's rise, Trump's AI directive
By Rob Burgess
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The meteoric rise of Chinese AI company DeepSeek, which vaulted to the top of the iOS App Store, coupled with President Donald Trump's executive order aimed at spurring American innovation on AI, has jolted the tech and investing communities.

While some see DeepSeek's low-cost model as a potential disruptor, others say its impact is overstated.

Financial advisors are weighing how these shifts could reshape markets — as well as wealthtech and investing strategies.

How big of a deal is DeepSeek?
The introduction of DeepSeek as a low-cost production large language model (LLM) is a watershed event for the global AI landscape, said Said Israilov, a financial planner and wealth manager at Israilov Financial in San Francisco.

"The fact that this company was able to quickly develop its AI model for a fraction of the cost that the U.S.-based companies spent on developing their models will have profound implications for the accessibility and affordability of AI tools," he said. "The launch of a new competitor could accelerate AI commoditization and eventually make it a general-purpose technology for the masses."

Others downplayed the significance of this development.

The recent market downturn associated with DeepSeek's announcement was more of a knee-jerk reaction than a watershed moment of market change, said John O'Connell, founder and CEO of industry tech consultant The Oasis Group. DeepSeek was trained fundamentally differently from existing AI models, "which is an advancement in the space."

"However, it does not change the growth outlook for AI-related technology stocks," he said.

Any technology that is sufficiently established sees lower-cost competitors emerge as the technology matures, said O'Connell.

"We are just seeing this at an incredible pace that matches all of the other incredibly fast advancements in AI," he said.

There's still much work to be done to validate the specifics of DeepSeek's

performance, cost efficiency and any ethical considerations, said Chris Brown, president at AI consultancy and intelligence company Intelygenz.

"As with all major AI developments, the focus shouldn't just be on the speed it was built but on responsible deployment, security and trust," he said. "These are particularly important considerations for financial organizations to make as global AI adoption accelerates."

A good time to diversify

The market downturn following DeepSeek's announcement was a reminder of how quickly tech can be disrupted by new innovation and amplify the volatility in tech-heavy investments, especially those related to AI, said Daniel Masuda Lehrman, founder and lead financial planner at Masuda Lehrman Wealth in Honolulu.

"As always, it's wise to maintain a diversified portfolio instead of heavily concentrating on individual stocks," he said.

O'Connell said he believes the stock market has significant concentration risk in the so-called Magnificent Seven that it has not seen since the 1970s, and financial advisors and investors need to recognize that concentration risk.

"Now is the time to diversify," he said. "The concentration risk in the Magnificent Seven is far too high to sustain the market growth. Advisors and investors should take the market's knee-jerk reaction as a wake-up call and reduce their concentrations with diversification into other investments such as alternative investments and real estate."

Chris Diodato, founder of WELLth Financial Planning in Palm Beach Gardens, Florida, said his firm has been communicating with clients for the last year that there will most likely be new competitors at some point to disrupt the Magnificent Seven AI giants.

"Whether DeepSeek is that competitor or not, the news of its release is, in my opinion, a shot across the bow to remind tech-heavy investors that diversifying across different stocks and sectors is critical," he said. "Given the already concentrated nature of the top stocks in the S&P 500, we are generally keeping any overweighting towards the Mag 7 in check and urging general diversification."

Diversification has always been important, said Anton Chashchin, founder and CEO of private fintech group N7 Capital. However, in this case, he said the market reaction to DeepSeek was exaggerated.

"The only assumption that the allegedly low-cost AI model DeepSeek's introduction disrupts is that AI has to be very costly and requires a lot of computer power," he said.

Big tech stocks like Nvidia and Microsoft have competitive advantages, like a bigger customer base and global reach, which will keep them afloat for a long time.

"Many inventors will continue to choose them," Chashchin said. "However, the success story of DeepSeek can make these tech giants rethink their strategies and move to a more cost-efficient model. Thanks to a more competitive environment, in the long term, we will have a smarter AI with less spending."

Taking a cautious stance, Robert R. Johnson, professor of finance at the Heider College of Business at Creighton University, said for all but the most optimistic of speculators, "Investors would be wise to steer clear of investing in artificial intelligence."

"I don't disagree with the premise that AI will have a fundamental impact on our lives," he said. "But the AI landscape is constantly evolving, and who knows which companies will ultimately benefit? I find it astounding that many retail investors are plowing money into firms that they can't even describe their business model."

How DeepSeek might affect wealthtech

The recent proliferation of AI-based tools in wealthtech has allowed financial advisors to serve clients more effectively and efficiently, and a new player in the AI marketplace will undoubtedly help sustain this momentum in leveraging AI-based tools, said Said.

Wealthtech firms are only scratching the surface of AI's possibilities, primarily because the wealth management industry is at its core a professional services industry, said O'Connell.

"We see much more rapid advancements in manufacturing and health care than in wealth management today," he said. "That being said, we are seeing an explosion of AI firms who are servicing the wealth management industry."

DeepSeek and similar models may be "good enough" to provide lower-cost solutions for wealthtech firms that would like to utilize AI in their solutions and cannot afford the costs of many of the established AI models, said O'Connell.

"As the costs to integrate AI models reduce, you will see more wealthtech firms adding those models to their existing solutions," he said.

The open-source nature of DeepSeek likely expands the possibilities for creating "specialist" chatbots in the future, Diodato said.

"That is, DeepSeek, unlike ChatGPT, will allow developers to build onto their core platform, tailoring their own 'versions' of the chatbot to specific needs," he said. "I think it will set a general lower barrier to entry for new wealthtech. This may be good or bad, as more products don't necessarily mean better quality."

And what about Trump's AI executive order?
In 2019, Trump signed an executive order directing federal agencies to prioritize AI research and development; it remains in effect. While President Joe Biden's October 2023 executive order established AI development guardrails, Trump's latest executive order removes regulations that may hinder AI advancements, aiming to establish U.S. leadership.

"To maintain this leadership, we must develop AI systems that are free from ideological bias or engineered social agendas," the Jan. 23 order reads. It also mandates a comprehensive AI action plan within the next 180 days.

"I believe that the most recent executive order enables the public and private sector to move forward quickly to develop new AI capabilities in machine learning that will establish the U.S. as the leading country to advance AI, and this is a good executive order," said O'Connell.

"Detractors will say that it can lead to unethical uses of AI. However, the AI genie is out of the box at this stage, and it will be used for good and ill, like any other technology."

Diodato said Trump's executive order is well-intentioned, at least in wording, "as having bias-free AI is likely the most beneficial for people."

This is especially important as DeepSeek responses include Chinese propaganda, according research cited by The New York Times.

Last year, Google Gemini, previously known as Bard, was paused for several months, facing similar complaints of distortions after it portrayed not only America's Founding Fathers but also Nazis as people of color.

"How does one make sure biases don't exist though, beyond a committee of individuals, each with their own inherent biases, to judge?" said Diodato. "I don't know the solution, or if there will be one."